



USAID
FROM THE AMERICAN PEOPLE

HYDRO POWER AND ENERGY PLANNING PROJECT (HPEP)

Newsletter

March / April, 2014

HPEP SUPPORTS:

- Accomplishment of tasks outlined in the GEMM 2015
- Financing of the new, run-of-river, HPPs by means of non-recourse loans
- Cross-border, competitive trading of clean energy

Energy Policy's intent is to meet the country's long-term needs for secure, clean and affordable energy through competitive markets that operate in the best long-term interests of consumers and the nation.

GEORGIAN ELECTRICITY SECTOR HAS A GRID CODE!

The Georgian National Energy and Water Supply Regulatory Commission (GNERC) adopted in April the first 4 Chapters of the Transmission Grid Code as the first step in developing the national grid code for Georgia. USAID-HPEP experts developed draft Transmission Grid, Distribution Grid, and Metering Codes for the Georgian electricity system. These Codes establish the technical rules defining parameters that electricity generating plant, a consumer or another network connected to the transmission and distribution networks have to meet to ensure safe and proper economic functioning of electricity system; it stipulates the obligations, responsibilities, and accountabilities of all parties towards ensuring open, transparent, non-discriminatory, and economic access and use of the transmission or distribution networks. Introduction of these Codes compatible with modern European standards will greatly enhance the enabling environment for potential investors and developers of Georgian hydropower potential. USAID-HPEP experts have been working on elaboration of the draft Codes with the Georgian State Electrosystem and other network operators from the start of Project. In cooperation with GNERC, nearly daily working group meetings with the representatives from Georgian State Electrosystem and other electricity sector specialists; and intensive consultations with the Ministry of Energy, HPEP drafted Transmission Grid Code. In March 2014, the initial draft of the Distribution Grid Code was also prepared by HPEP and submitted to GNERC for internal review, stakeholder review and eventual adoption.



Above: photo of USAID & HPEP Meeting with GNERC and GSE Management

ENERGY POLICY PAPER



Above: Photo of HPEP Steering Committee Meeting at the Ministry of Energy

USAID HPEP in cooperation with the Ministry of Energy developed the National Energy Policy for Georgia. The Policy sets out a strategic energy policy framework that addresses the priorities and challenges in the energy sector of Georgia. The policy's intent is to meet the country's long-term needs for secure, clean and affordable energy through competitive markets that operate in the best long-term interests of consumers and the nation. These main directions in energy policy are designed to improve energy security, to facilitate governmental and private investment decisions and to be flexible enough to address the impacts of technological, social, economic, environmental, and national energy security changes. A number of coordination

meetings were held at the Ministry of Energy attended by key stakeholders including Ministry of Energy, USAID, GNERC, GSE, ESCO, GOGC, GGTC and the Oil and Gas Agency. During the coordination meetings, the Energy Policy for Georgia was updated based on stakeholders' recommendations and suggestions. As a follow-up, the Policy will be sent to the Parliament of Georgia for review and adoption.

USAID-HPEP PROPOSED NEW AMENDMENTS TO THE LAW ON ELECTRICITY AND GAS

To further facilitate development of competitive electricity in Georgia, following on the recent changes to the E&G Law made in December 2013, HPEP proposed new amendments to the Electricity and Gas Law of Georgia to the Ministry of Energy. These new amendments will significantly support the measures required for implementation of GEMM 2015 and competitive electricity trading in Georgia.

USAID-HPEP PROPOSED NEW AMENDMENTS TO THE LAW ON ELECTRICITY AND GAS (CONT.)

According to the USAID HPEP's proposal, the E&G Law must stipulate the following provisions:

- Adoption of Market Rules by GNERC
- Introduction under a market operator's functions of: allocation of state-owned generation to domestic electricity off-takers; not allowed to sign bi-lateral electricity purchase and sales contracts; DAP/MAP development and implementation; licensing by GNERC; and, development of new market services
- Creation of a transmission system operator that will be licensed by GNERC and definition of its Rights and Responsibilities.
- Establishment of an Ancillary Services Market
- Day Ahead Planning – Day Ahead Trading and Balancing Market
- Balancing Responsible Party and Balancing Groups
- Clearing Mechanism
- Capacity Reserve Market
- Establishment Energy Traders' License
- Unbundling of Distribution Companies
- Supplier of Last Resort Rules
- Customer Switching Rules
- Protection of Vulnerable Customers
- Reforming Sanction Procedures for rule violations in the energy sector
- Transparency of data and processes in the electricity markets
- Standard Conditions for Contracts: Electricity Supply Agreement: Transmission Agreement
- TSO Agreement
- Connection Agreement
- Confidentiality of trading secrets.
- Natural Gas quality
- Transmission network access charge, Transmission network use of the system charge
- and Transmission system services charge

The above-mentioned potential E&G Law amendments proposed by USAID HPEP were discussed at the meeting with the Deputy Ministers and agreed for further discussion. Another important step towards promoting competitive electricity trading in Georgia was adoption of the Template of Electricity Supply Agreement (ESA) which was developed by USAID HPEP and adopted by key electricity sector stakeholders. As a result of this activity, any electricity trader now has a pre-approved sales and purchase contract for electricity trading across the border or inside Georgia.

MARKET OPERATION SUPPORT

HPEP has been pursuing its main goals through extensive capacity building activities targeted at increasing awareness and capability of Georgian energy sector stakeholders and market players about competitive market models and mechanisms necessary for proper operation of the electricity market to meet the requirements for Georgia to join the EU Energy Community. Market Operation Working Group Meeting was organized by HPEP on March 19, 2014 with the aim of increasing awareness and capacity of electricity generators, off-takers, traders, developers, and other market players. The Meeting was attended by the representatives from the Ministry of Energy, USAID, Market Operator, Georgian State Electricity System, Energo-pro Georgia, Kakheti Distribution System, Telasi, hydropower developers and electricity generating and selling companies.



Above: Photos of HPEP's Market Operation Working Group Meeting

Giorgi Shukakidze, Deputy Head of the Energy Department of MoE, emphasized importance and meaning of electricity trading mechanism for future development of Georgian electricity market. Presentation on Transition to Hourly Balancing Market was made by Giorgi Chikovani, DCoP of HPEP. He explaining in details the stages of transition to the competitive hourly market including: development of a monthly ahead planning (MAP), development of a day ahead planning (DAP), implementation of MAP and DAP for bi-lateral contracting on hourly basis, development of "take or pay" contracting and introduction of hourly balancing market and settlement system. For most of the Meeting participants, mainly the electricity generation companies, the topic was new and was followed by numerous thematic questions related to responsibilities, timing, and other implementation issues of the hourly balancing market.

Jake Delphia, HPEP Chief of Party, spoke about the further steps and ways of supporting market participants in implementing competitive electricity market mechanisms in Georgia as the market develops and becomes more competitive. It is important that HPEP builds on this event to organize more extensive consultations. As a follow up, market participants were offered to join HPEP's LinkedIn group, and visit www.hydropower.ge where they will find all GEMM 2015 related documents produced by HPEP staff. In response to the lively interest of the meeting participants, HPEP planned Full Electricity Market Training Course for them to be conducted in May and June of 2014.

STUDY TOUR IN EUROPE

Under its capacity building component, USAID HPEP organized a Study Tour in Europe for Georgian electricity sector stakeholders at the end of March, beginning of April. The goal of the Study Tour was to increase the institutional capacity of the Energy Regulator, Market Operator, designated Transmission System Operator and the Ministry of Energy in the areas related to competitive electricity trading practices and fully functional electricity markets by showing the work of well-developed power trading companies and operators in place. Three countries were selected to host the study tour: Germany, (Statkraft Office in Dusseldorf), Austria (Transmission System Operator in Vienna), and Slovenia (Borzen, Market Operator, BSP - Slovenian Power Exchange, and ELES -Slovenian Transmission System Operator). Slovenia has a well-established competitive electricity trading platform with Italy similar to what Georgia is attempting to develop with Turkey.



Above: Photos from Study Tour in Europe

To foster facilitation of competitive energy trading in Georgia, the heads of the organizations and decision-making staff participated in the Study Tour, inter alia, the GNERC Chairperson, Irina Milorava; Deputy Minister of Energy, Irakli Khmaladze; Head of GSE, Sulokhan Zumburidze and Head of the Market Operator, Vakhtang Ambokadze.

Study Tour participants highly appreciated the knowledge and information received during the meetings and workshops and highlighted the importance of such experience especially in light of the Georgia's forthcoming membership in the EU Energy Community. They expressed great interest in the electricity trading issues, particularly in the topics most related to Georgian electricity sector, trading cross border with Turkey and market coupling. Questions raised also concerned the issue of allocating responsibilities between the MO and TSO regarding balancing, price formation, market monitoring and regulation, and compliance with the EU requirements. It was concluded that opening of electricity markets, competitiveness and regional trading are good for consumers, economy and social welfare. In the long run increased competitiveness will decrease the price of electricity. The main message of the Study Tour was that Georgia needs to develop its market and open room for competition. Experience of the countries visited showed that there is no universal formula for market development, every country has its own, cautiously elaborated market model, and Georgia should also develop its own market model, tailored to its specifics and needs.

HPEP CONFERENCE AT GEORGIAN TECHNICAL UNIVERSITY

Another important capacity building activity fulfilled by HPEP during March - April of this year was Conference – Young Energy Leaders in Georgian Energy Sector held in cooperation with the Georgian Technical University (GTU) and the Ministry of Energy on April 23. The main objective of the Conference was to strengthen and stimulate youth' and especially women's involvement in the development of the Georgian energy sector. To this end, HPEP made a special effort to include young female leaders, doctoral candidates and students from Georgian Technical University, Robakidze State University and Tbilisi public schools and saw a balanced representation from both male and female presenters. More than 100 invitees, with the majority of students, attended the Conference. It was emphasized that the energy sector offers new and exciting careers for technically-minded people notwithstanding their gender, and it is important to support young female students to enhance their capabilities through educational and training opportunities.



Above: Photo from HPEP's Conference at GTU